

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

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R 020556Z AUG 74

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 3791

INFO AMCONSUL BRISBANE

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E.O. 11652: N/A

TAGS: EIND, EGEN, PINT, AS

SUBJECT: ECONOMIC POLICY DEVELOPMENTS - AUSTRALIA

REF: (A) CANBERRA 4769

(B) CANBERRA 4740

(C) CANBERRA 4286

(D) MELBOURNE 0892

(E) CANBERRA 5002

1. BEGIN SUMMARY: IN WAKE OF JULY 23 "MINI-BUDGET"
PUBLIC AND PARLIAMENTARY DEBATE OVER ECONOMIC DEVELOP-
MENTS CONTINUES. PRESS COMMENT AND OPPOSITION PARTIES
INCREASINGLY CRITICAL OF GOA FOR INADEQUATE ANTI-
INFLATION EFFORT. IN ABSENCE OF OTHER MOVES BY GOA,
PUBLIC ATTENTION NOW FOCUSED ON AUGUST 7-8 CONCILIATION
AND ARBITRATION COMMISSION CONFERENCE ON WAGE INDEXATION
(SEE PARA 2, REF C, AND REF D). ASIDE FROM THIS
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CONFERENCE, MAIN QUESTION NOW IS WHETHER GOA WILL BRING

IN SUPPLEMENTAL MEASURES PRIOR TO SEPTEMBER BUDGET OR HOLD NEW INITIATIVES FOR BUDGET. GOA ECONOMIC MANAGEMENT TASK HAS ALSO BEEN COMPLICATED BY FY74 BALANCE OF PAYMENTS RESULTS SHOWING BIG SWING FROM SURPLUS INTO DEFICIT (REF E.) END SUMMARY

2. FOLLOWING GENERAL DISAPPOINTMENT OVER LIMITED CHARACTER OF "MINI-BUDGET" (REFTEL A) IT BECAME EVIDENT, AS WIDELY SURMISED, THAT ORIGINAL TREASURY PROPOSALS HAD INCLUDED SIGNIFICANT INCREASES IN PERSONAL AND CORPORATE INCOME TAXES. THESE INCREASES REJECTED BY LABOR CABINET AND PROPOSAL PRESENTED TO CAUCUS AND PARLIAMENT REPRESENTED ONLY PART OF ORIGINAL PROPOSAL. SINCE THAT TIME OPPOSITION IN SENATE HAS BLOCKED UNTIL SEPTEMBER BUDGET SESSION SUBSTANTIAL POSTAL AND TELEPHONE INCREASES WHICH REPRESENTED LARGER PART OF ADDITIONAL REVENUES IN MINI-BUDGET.

3. MOUNTING CRITICISM OF INADEQUACY OF CURRENT PROPOSALS AND DEMANDS FOR RESTATEMENT OF OVERALL GOA ECONOMIC POLICY TO MEET PERSENT CIRCUMSTANCES HAS SO FAR ELICITED NO DEFINITIVE STATEMENT OF CABINET'S INTENTION. DURING PAST WEEK CABINET APPROVED PROPOSAL TO AUTHORIZE PRICES JUSTIFICATION TRIBUNAL TO EXAMINE RETAIL MARKUPS AND PRICING WITH SPECIAL ATTENTION TO WHETHER MARKUPS ON IMPORTED PRODUCTS EXCESSIVE. OTHERWISE, QUESTION REMAINS WHETHER PRIMIN WILL BRING FORWARD ANY MAJOR NEW ECONOMIC MEASURES PRIOR TO SCHEDULED BUDGET PRESENTATION IN SEPTEMBER.

4. MEANWHILE PUBLIC ATTENTION FOCUSED ON PREVIOUSLY SCHEDULED FEDERAL CONCILIATION AND ARBITRATION COMMISSION CONFERENCE AUGUST 7-8, WHICH WILL CONCENTRATE ON REINTRODUCTION OF WAGE "INDEXATION" SYSTEM. THIS CONFERENCE OF GOVERNMENT, INDUSTRY AND LABOR CALLED BY PRESIDENT OF COMMISSION INCIDENT TO RECENT NATIONAL WAGE CASE. PURPOSE IS TO EXPLORE POSSIBILITY OF BROAD AGREEMENT ON INDEXATION PROPOSALS PREVIOUSLY REPORTED REF C. WIDELY PUBLICIZED CABINET DECISION THIS WEEK TO SUPPORT INDEXATION AT AUGUST 7-8 CONFERENCE HAS HEIGHTENED LIMITED OFFICIAL USE

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PUBLIC ATTENTION TO CONFERENCE. SUBSTANTIAL QUESTIONS EXIST (1) WHETHER ANY ADEQUATELY BROAD AGREEMENT CAN BE REACHED ON INDEXATION TECHNIQUE, AND (2) WHETHER SUCH PROCEDURE, EVEN IF AGREEMENT REACHED, WOULD BE ADDITIONAL INFLATIONARY FORCE OR WOULD HAVE EFFECT OF MODERATING TOTAL LABOR DEMANDS. REFTTEL D DISCUSSES THESE ISSUES IN MORE DETAIL.

5. THE OTHER PRINCIPAL DEVELOPMENT, AMID FLURRY OF ECONOMIC POLICY STATEMENTS BY VARIOUS PUBLIC FIGURES, IS JULY 28 SPEECH BY DEP PRIMIN CAIRNS TO VICTORIAN ALP CONFERENCE. CAIRNS, WHO HAS IN GENERAL BEEN MODERATE IN TONE ON ANTI-INFLATION MEASURES, REITERATED GRAVE NATURE OF INFLATION THREAT TO AUSTRALIA, BUT SIMULTANEOUSLY REPEATED HIS INSISTENCE THAT IT MUST BE MET WITHOUT UNEMPLOYMENT OR WAGE FREEZE. IN ADDITION TO REPEATING LONG-STANDING PROPOSALS INCLUDING RETRAINING AND LABOR ADJUSTMENT MEASURES, CAIRNS SUPPORTED INDEXATION, MODERATE WAGE INCREASES FOR LOWER SALARIED WORKERS, HIGHER TAXES ON SPECULATIVE ACTIVITIES AND CAPITAL GAINS TAX AND SIMILAR MEASURES. MAJOR NEW ITEM IN CAIRNS' SPEECH WAS EMPHASIS ON NEED FOR SELECTIVE CONTROLS TO REGULATE PATTERN OF BANK LENDING IN ORDER TO CONCENTRATE LENDING ON PRODUCTIVE OPERATIONS IN INDUSTRY AND OTHER ESSENTIAL ACTIVITIES, ESPECIALLY HOUSING.

6. EMBASSY COMMENT: MAJOR QUESTION NOW IS WHETHER GOA WILL OR WILL NOT ATTEMPT TO ADVANCE SIGNIFICANT ECONOMIC POLICY PROPOSALS BEFORE SEPTEMBER BUDGET. LATTER WILL IN ANY CASE CONTAIN THE MAJOR ECONOMIC DECISIONS FOR NEXT FEW MONTHS. DESPITE PUBLIC ATTENTION GIVEN TO IT, INDEXATION PROPOSAL APPEARS UNLIKELY FOR ANY OF VARIOUS REASONS TO MAKE SIGNIFICANT CONTRIBUTION TO ANTI-INFLATION EFFORTS. MEANWHILE PRIMIN'S ABILITY TO ADVANCE VIGOROUS PROGRAM UNDOUBTEDLY SEVERLY LIMITED BY WIDE DIVERGENCES OF VIEW WITHIN CABINET ITSELF AND EVEN WIDER UNREST IN ALP PARLIAMENTARY CAUCUS. IN BOTH BODIES, THE SPLIT BETWEEN MEMBERS PRIMARILY CONCERNED WITH ATTACKING INFLATIONARY FORCES -- WHETHER DEMAND OR COST ORIGINATED -- AND MEMBERS CONCERNED ABOUT STAGNATION AND UNEMPLOYMENT, AND THEREFORE INCLINED TO SUBORDINATE LIMITED OFFICIAL USE

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INFLATION PROBLEM TO NEW PREOCCUPATION WITH IMPORT COMPETITION AND DEMAND STIMULATION, CONTINUES TO WIDEN AND THEREBY LIMIT GOA ABILITY TO FOCUS ON VIGOROUS, COHERENT NEW MEASURES. PUBLIC HAS BEGUN TO QUESTION THE CAPACITY OF GOVERNMENT--AND OF POLITICAL LEADERS GENERALLY--TO COPE WITH INFLATION, AND RECENT VOTE BY LABOR CAUCUS TO INCREASE PARLIAMENTARY SALARIES HAS BEEN SEEN AS PARTICULARLY CYNICAL AND UNSTATSMANLIKE.
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